

# USDA



U.S. Department of Agriculture  
Office of Inspector General  
Southeast Region  
Audit Report

Rural Development, Rural Housing Service  
Rural Rental Housing Program  
Tenant Income Verification  
Gainesville, Florida



Report No.  
04004-3-At  
June 2003



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DATE: June 26, 2003

REPLY TO  
ATTN OF: 04004-3-At

SUBJECT: Rural Development, Rural Housing Service  
Rural Rental Housing Program  
Tenant Income Verification Gainesville, Florida

TO: Charles W. Clemons, Sr.  
State Director  
Rural Development

This report presents the results of the subject audit. Rural Development's May 19, 2003, response to the official draft report, is included as exhibit F with excerpts and the Office of Inspector General's (OIG) position incorporated in the Findings and Recommendations sections of the report.

We can reach management decision on the recommendations once we have been provided the information as outlined in the report's "OIG Position" sections.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 30 days. Please note that the regulation requires a management decision to be reached on all recommendations within 6 months of report issuance.

*for Kenneth Tyler*  
RAYMOND G. POLAND  
Regional Inspector General

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## EXECUTIVE SUMMARY

### RURAL DEVELOPMENT, RURAL HOUSING SERVICE RURAL RENTAL HOUSING PROGRAM TENANT INCOME VERIFICATION GAINESVILLE, FLORIDA AUDIT NO. 04004-3-At

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#### RESULTS IN BRIEF

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This report presents the results of our audit of the Florida Rural Development (RD) State Office's (SO) controls over the tenant eligibility determination process in the Rural Rental Housing (RRH) Program. We evaluated the SO's controls over the tenant certification process and accuracy of rental subsidies. RD provides two forms of subsidies so that RRH borrowers can provide rental rates within the limited means of low-income tenants. The first is interest credit (IC) where the loan interest rate is reduced from the market rate to 1 percent. The second is rental assistance (RA) which is rental payments to borrowers on behalf of very low-income tenants. As of April 2002, Florida's RRH loan portfolio consisted of 465 projects that contained 20,667 rental units. RD provided IC to all projects and RA to 327 of the projects. The 327 projects had 14,705 rental units of which 10,326 units received RA.

We statistically tested the tenant certifications of the households residing in the 14,705 units at the 327 RA projects. We estimate that tenant certifications for 2,583 (20.8 percent) of the 14,705 units contained errors that resulted in households, including those of apparent illegal aliens, receiving improper rental subsidies totaling \$4,715,697<sup>1</sup> (overpayments of \$4,444,392 and underpayments of \$271,305). The primary cause for the improper subsidies was that tenants did not accurately report their incomes and household circumstances on their certifications or they did not notify the project managers of subsequent changes in household incomes or circumstances. The project managers did not have an independent source to verify household income and RD had not fully implemented controls over the tenant certification process to monitor and improve the quality of certifications.

The SO had not sufficiently implemented controls to ensure accuracy of project managers' tenant certifications. RD's prescribed controls were that SO's ensure that servicing officials (1) conduct supervisory reviews of

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<sup>1</sup> We are 95 percent certain that the value of households receiving improper rental subsidies was at least \$2,402,295 and not more than \$7,029,100. Our estimate of \$4,715,697 has a sampling precision of 49.1 percent.

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each RRH project on a 3-year cycle and (2) perform wage and benefit matches on 10 percent of all tenant households annually and on the households sampled during supervisory reviews. The State had not fully implemented RD's wage and benefit match provision. For May 2001 through April 2002, the State obtained wage and benefit matches for 1,074 individuals even though the minimum requirements equated to 3,674. Also, the SO did not request wage and benefit matches for all new households moving into the projects as encouraged by the RD National Office. In addition, the supervisory reviews were generally not of sufficient depth to detect the material problems identified by this audit. The SO relied on the area offices to implement wage and benefit matching requirements and conduct supervisory reviews with little oversight.

The SO had not provided sufficient guidance to project managers for computing and projecting fluctuating incomes or required wage matches for tenants to assist in eligibility determinations. Tenants with earned income were more prone to certification errors due to a variety of reasons including multiple employers, fluctuating earnings, and seasonal employment. These variables generally require that project managers forecast the households' expected future incomes. In addition, tenants and household members may not always be citizens or legal aliens. We found that the citizenship status of 24 of the 189 adults residing in the labor-project units was questionable.

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## **KEY RECOMMENDATIONS**

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We made a series of recommendations regarding the SO's oversight and monitoring of the tenant certification process including increased use of wage and benefit matching and more substantive supervisory reviews. In addition, we recommend that the SO (1) establish a claim and collect the overpayments from the households in our sample who received excess benefits and (2) review the tenant certifications for all 80 units at one project where the manager failed to follow RD certification procedures, determine the amount of overpayments, and recover them.

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## **AGENCY RESPONSE**

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In its May 19, 2003, response to the draft report, the SO generally agreed with four of the report's seven recommendations. These recommendations dealt with (1) reviewing and recovering overpayments questioned in the report, (2) working with the Florida Department of Law Enforcement and the Florida Department of Labor and Employment Security to permit wage and benefit matching information sharing with project managers, and (3) developing procedures for project managers' verification of applicants' citizenship or legal alien status. The SO disagreed with the other three recommendations. They dealt with (1) requiring wage matches on all households at both initial

certifications and annual recertifications, (2) developing additional procedures and guidelines for (a) RD staff to follow when conducting supervisory reviews and (b) project managers to follow when forecasting tenants' annual incomes.

We evaluated the SO comments on the three recommendations and our basic position remains unchanged.

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# INTRODUCTION

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## BACKGROUND

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The Rural Housing Service (RHS), an agency of the U.S. Department of Agriculture (USDA), provides funding for the Rural Rental Housing (RRH) Program. The RHS Headquarters in

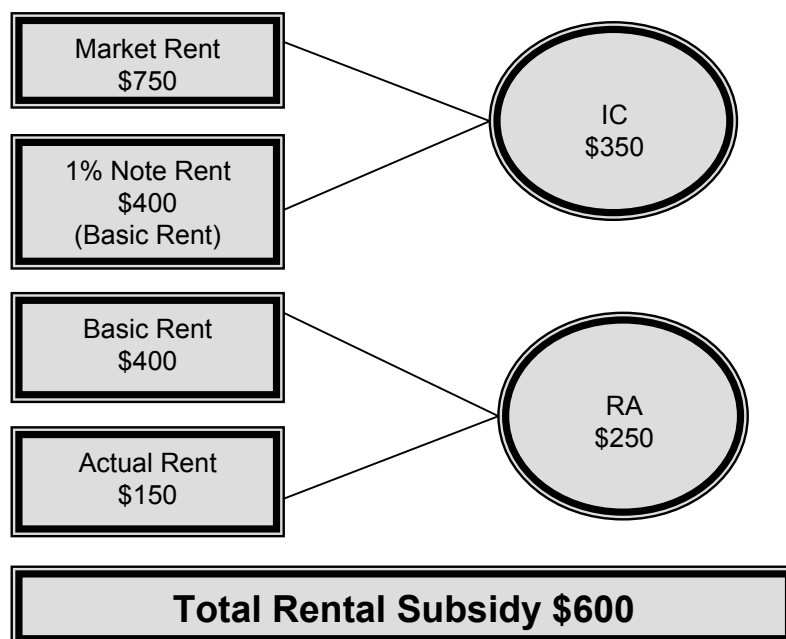
Washington, D.C., administers the program through its 47 Rural Development (RD) State offices (SO) and a network of field offices nationwide. The RRH Program in Florida is administered through the SO and five area offices (AO).

The Rural Rental Housing (RRH) Program provides loans for rural rental or cooperative housing for the elderly and individuals with low- to moderate-income. To be eligible for an RRH loan, the applicant, with the exception of a State or local public agency, must be unable to obtain financing on terms that allow the housing units to be rented for amounts that are within the payment ability of eligible tenants. The program provides two forms of rental subsidies so that borrowers can provide rental rates within the limited means of low-income tenants.

- **Interest Credit (IC)** – The loan interest is reduced from the market rate to 1 percent so that borrowers can provide affordable rental rates to the low-income tenants.
- **Rental Assistance (RA)** – Direct rental payments to borrowers on behalf of very low-income tenants to pay their rent up to the one-percent rate (basic rent).

The subsidies are the difference between the market rate for a housing unit (apartment) and the amount of rent the tenant is able to contribute based on income and household size. When the tenant is able to contribute more than the basic rent, the tenant does not qualify for subsidies and must pay the borrower the difference between the amounts of basic rent up to the approved market-rate rent. This excess portion of the contribution is commonly referred to as overage and is used to reduce the IC subsidy provided to the borrower. The provision does not apply to tenants of labor-housing projects.

The following is an example of IC and RA subsidy provided to a very low-income tenant of an RRH project apartment:



Applicants must meet eligibility requirements in order to live in the project. Their adjusted annual income must meet the definition of very low-, low-, or moderate-income. Adjusted annual income is the aggregate annual income of all adult household members less allowable deductions for dependents, handicapped status, elderly status, medical expenses, childcare expenses, and other authorized deductions. The tenant's adjusted annual income must be determined and documented on the Tenant Certification (form RD 1944-8), at least once every 12 months. However, if there are permanent increases to a tenant's income of over \$480 annually or changes in household circumstances during the certification period, the tenant is required to report these changes to the borrower or company managing the project and be recertified.

It is the borrower or its management company's responsibility to verify tenant income with employers and other third-party sources. The tenant income will normally be verified before a person is determined eligible and at least once a year thereafter.

**Scope of Florida Activity** - As of April 2002, there were 465 RRH projects in Florida with a total of 20,667 rental units. The outstanding loan balance on the projects totaled \$557.3 million. For 2002, RD provided almost \$24.7 million of RA to tenants of 327 of the RRH projects. RA was provided to tenants living in 10,326 units of the 327 projects' total 14,705 rental units. (See table 1.)

**Table 1**

Project Type	Total Projects	Units			
		Total	Percent	RA	Percent
Elderly <sup>1</sup>	106	4,269	29.0	3,598	34.9
Family <sup>2</sup>	195	7,129	48.5	4,486	43.4
Labor	26	3,307	22.5	2,242	21.7
<b>Total</b>	<b>327</b>	<b>14,705</b>	<b>100.0</b>	<b>10,326</b>	<b>100.0</b>
<sup>1</sup> Projects that serve only elderly, handicapped, and disabled tenants and congregate feeding projects.					
<sup>2</sup> Projects that serve families, although elderly, handicapped, and disabled tenants can also reside in these facilities.					

**Program Controls** – RD Instructions provide for supervisory visits of RRH projects to ensure compliance with RD policies and objectives<sup>1</sup>. Supervisory visits are performed by the AO's and are required to be performed once every 3 years at each project. The reviews concentrate on tenant eligibility, income, and adjustments to income verifications, maintenance, insurance coverage, and status of loan payments. The AO's are required to select a sample of tenant households to assess the accuracy of the project management's income verification and computations efforts.

In January 1996, the SO entered into an agreement between the Office of the Auditor General and the Florida Department of Labor and Employment Security (FDLES) to obtain wage and benefit matches. The agreement requires the SO to (1) ensure that the information received be used by the USDA only in its official capacity as a Department of the Federal Government, (2) ensure that information obtained may no be redisclosed by the USDA, and (3) understand and acknowledge that the information obtained may contain inaccuracies because of employer reporting errors and FLDES shall not be responsible or liable for any errors contained in such data. Since inception of the agreement in January 1996, the SO has been requesting wage and benefit matches for tenants.

In 1999, the SO updated the agreement with FDLES because responsibility for public assistance fraud was transferred from the Auditor General to the Florida Department of Law Enforcement (FDLE). The agreement contained the same conditions as the 1996 agreement.

<sup>1</sup> RD Instruction 1930-C, part 1930.119(b)(1), dated August 30, 1983

In April 2001, the national office issued an administrative notice (AN) to require wage and benefit matches for the RRH tenants<sup>2</sup>. The use of wage and benefit matching provides States and projects with a method to reveal abuses in the RRH Program and identify improper assistance. The SO's were responsible for entering into wage and benefit matching agreements with the appropriate State agency (SA), and establishing guidelines for when and how often to conduct wage and benefit matching. In addition, SO's will ensure that wage and benefit matches are performed each year on at least 10 percent of all the units in the State and all sampled households selected for supervisory reviews. Further, the national office encouraged SO's to match all tenants moving into projects for the first time.

The AN expired April 30, 2002. As of May 2003, the RD National Office had not reissued it or other wage and benefit matching guidance.

FDLE has agreements with Florida and Federal agencies to obtain information from their various databases that contain wage and benefit income data. The databases include information for salary and wages, State retirement, Supplemental Security Income (SSI), unemployment compensation, child support, welfare payments, and new hire information. In turn, FDLE has agreements with the various agencies to perform matches as requested and provide the results to the agencies for use in administering their income means-testing programs or law enforcement responsibilities.

The RD SO provides FDLE with a list of tenants, by name and social security number (SSN), for matching. FDLE provides the SO with wage and benefit information for the matched individuals. Because the information provided by FDLE may contain errors, the agreement requires that the information be verified prior to determining that inaccurate rental subsidies were provided.

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## **OBJECTIVES**

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The audit was conducted as part of the Office of Inspector General's (OIG) annual plan and assessed the accuracy of subsidies associated with the RRH Program in Florida.

The audit objectives were to (1) evaluate RHS' administrative controls over tenant subsidy entitlements, (2) assess borrower/management companies' tenant certification and income verification procedures, and (3) determine the accuracy of tenant subsidies.

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<sup>2</sup> RD AN No. 3647 (1930-C), April 17, 2001

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## SCOPE

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The audit was performed in accordance with Generally Accepted Government Auditing Standards and primarily covered fiscal year (FY) 2002, although other periods were reviewed as necessary. As of April 2002, Florida's RRH loan portfolio consisted of 465 projects with loans totaling over \$557.3 million. The 465 projects contained 20,667 rental units. RHS provided RA to 327 of these projects. These 327 projects had 14,705 rental units of which 10,326 units received RA. For 2002, RHS provided almost \$24.7 million in RA on behalf of eligible tenants.

Audit work was performed at the Florida RD SO in Gainesville, Florida; 4 of 5 AO's; and 31 projects statistically selected from the universe of the 327 projects receiving RA. (See exhibit B.) At each project we randomly selected 10 tenant certifications (5 RA and 5 IC units) reported on the April 2002 project worksheet (form RD 1944-29). For the sampled units, we assessed the propriety of their rental rates and subsidies. Audit work was performed from April 2002 through October 2002.

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## METHODOLOGY

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To accomplish the audit objectives, our examination consisted of the following:

- Review of laws, regulations, and instructions applicable to the program.
- Interviews with SA officials, reviews of SA policies, procedures, program statistics and management reports, and other pertinent correspondence.
- Contacts with USDA's Office of General Counsel (OGC) to obtain opinions and clarification on program requirements.
- Interviews with AO officials, review of triennial supervisory project visits, project files, and other pertinent correspondence.
- Interviews with FDLE officials covering the wage matches, agreements, and responsibilities.
- Interviews of RRH project managers, review of project procedures to certify and recertify tenants, and reconciliation of tenant certifications to supporting file documents.
- Review of a statistical sample of tenants participating in the program. We selected 31 RRH projects to test the borrower/management companies' tenant certification and accuracy

of subsidies. At each project, 10 units (5 RA and 5 IC) were randomly selected. (See exhibit D.) For each sampled tenant, we:

- Interviewed the tenants to verify the information reported on the tenant certification and to obtain authorization to verify the income reported.
- Obtained wage and benefit information for household members from FDLE.
- Verified employment and wages with tenant employers, and other entities (e.g., Social Security Administration (SSA)) that provided income to the tenants.

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## FINDINGS AND RECOMMENDATIONS

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<b>CHAPTER 1</b>	<b>IMPROPER RENTAL SUBSIDIES WERE PROVIDED TO TENANTS</b>
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### FINDING NO. 1

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We estimate that tenant certifications for 2,583 (20.8 percent) of the 14,705 RRH units we tested contained errors that resulted in households receiving improper rental subsidies totaling \$4,715,697 (overpayments of \$4,444,392 and underpayments of \$271,305). The primary cause for the improper subsidies was that tenants did not accurately report their incomes and household circumstances at certifications or they did not notify the project managers of subsequent changes in household incomes or circumstances. The project managers did not have an independent source to verify household income and RD had not fully implemented controls over the tenant certification process to monitor and improve the quality of certifications (see finding no. 2).

Tenants are required to report their true household circumstances at certification and to immediately report changes in income (defined as an increase of \$480 or decrease of \$240 annually) and other changes in household circumstances. Tenants are required to certify the accuracy of the information they report to the project managers and acknowledge they may be required to repay excessive subsidies that they receive. A tenant certification (RD form 1944-8) is completed at the time of initial lease, at least every 12 months thereafter, and whenever a tenant reports a mandatory change. Project management verifies the income reported and determines the tenant's monthly rental rate. The tenant's monthly rental rate is used to determine the amount of RA and IC on each unit<sup>3</sup>.

Project management companies are responsible for accurately determining tenant eligibility and subsidy entitlements. They are required to obtain written verifications of income from employers or other sources for each household member during initial certification and annual recertification<sup>4</sup>. Annual income is defined as the anticipated total amount to be received by all household members during the 12 months following the effective date of the certification. In addition, deductions from income are allowed for elderly and minor tenants and certain other expenses

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<sup>3</sup> RD Instruction 1930-C, exhibit B, part VII (F)(2), dated August 30, 1993.

<sup>4</sup> RD Instruction 1930-C, exhibit B, parts VII A, B, and F, dated August 30, 1993.

(e.g., child care)<sup>5</sup>. Project managers did not have an independent source such as wage and benefit matching to verify tenants incomes. The SO's wage matching agreement prohibited the redisclosure of wage and benefit data to non-USDA officials. (See Finding No. 2.)

As of April 2002, RHS provided RA to 327 Florida projects. These 327 projects had 14,705 rental units of which 10,326 units received RA. In 2002, RHS provided almost \$24.7 million in RA on behalf of tenants residing in the 10,326 units. The amount of IC associated with the 327 projects was unavailable because RD did not compile this information by project or State.

To evaluate the propriety of rental subsidies, we statistically selected 31 projects from the universe of 327 projects receiving RA in April 2002. For the 31 projects, we randomly selected 301 units to determine the accuracy of the tenant certifications. (See exhibit D.) For each sampled unit, we obtained wage and benefit match information for each household member from FDLE. We then interviewed tenants using a detailed checklist, verified income data with outside sources such as employers and government agencies (e.g., SSA), and audited the certification forms using the data we had collected. We reviewed as many months as possible (up to 36 months) to determine the effect the errors had on rental subsidies the sampled households received.

Our review disclosed that households occupying 94 of the 301 units received improper rental subsidies of \$167,074 (See exhibit C, schedule 1). Of the 94 households with tenant certification errors, 79 households received excess rental subsidies of \$153,938 and 15 received \$13,136 less than their entitlement. Based on the sample results, we projected payment errors for (1) the test month of April 2002, (2) the households' 12-month certification periods that included April 2002, and (3) all months (up to 36 months) in which the error occurred.

When projected for April 2002, we estimated that 2,335 units (18.78 percent) received improper rental subsidies totaling \$274,823. When projected for the 12-month certification period and all other months reviewed, the estimated payment errors increased to \$3,183,516 and \$4,715,697, respectively. (See table 2.)

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<sup>5</sup> RD Instruction 1930-C, exhibit B, part II, dated August 30, 1993.

**Table 2**

Table 2	PROJECTIONS					
	UNITS				SUBSIDY	
	PAYMENTS	NO.	PERCENT	SAMPLING PRECISION	AMOUNT	SAMPLING PRECISION %
A - Improper Subsidies for April 2002						
OVER			Units %	%		
RA	1,591	12.80	43.9	7.074	\$193,842	53.7
IC	876	7.05	77.2	6.141	60,023	64.5
SUBTOTAL	1,919	15.44	39.7	7.739	\$253,865	50.8
UNDER			Units %	%		
RA	365	2.94	74.7	2.258	\$17,272	79.3
IC <sup>1</sup>						
SUBTOTAL	416	3.35	73.7	2.522	\$20,957	80.9
TOTAL	2,335	18.78	36.2	8.655	\$274,823	47.2
B - Improper Subsidies for 12-Month Certification Period						
OVER			Units %	%		
RA	1,705	13.71	43.6	7.414	\$2,233,192	55.6
IC	940	7.56	75.5	6.399	705,370	63.7
SUBTOTAL	2,008	16.15	39.9	8.027	\$2,938,563	52.4
UNDER			Units %	%		
RA	384	3.09	70.3	2.250	\$208,776	78.3
IC <sup>1</sup>						
SUBTOTAL	434	3.50	69.8	2.510	\$244,952	82.6
TOTAL	2,416	19.43	36.2	8.881	\$3,183,516	48.7
C - Improper Subsidies for All Months Reviewed						
OVER			Units %	%		
RA	1,824	14.67	41.5	7.649	\$3,366,835	52.5
IC	1,066	8.58	73.7	6.999	1,077,557	70.4
SUBTOTAL	2,199	17.69	40.3	8.712	\$4,444,392	51.9
UNDER			Units %	%		
RA	384	3.09	70.3	2.250	\$235,129	70.1
IC <sup>1</sup>						
SUBTOTAL	434	3.50	69.8	2.510	\$271,305	74.77
TOTAL	2,583	20.78	49.1	9.435	\$4,715,697	49.1

<sup>1</sup> For statistical purposes we could not project for these quantities.

<sup>1</sup> For statistical purposes we could not project for these quantities.

As shown in section B of table 2, the improper rental subsidies totaled \$3,183,516 on an annual basis. Additional details of the statistical estimates are presented as schedules 1, 2, and 3 of exhibit D.

The primary cause of the errors was tenants not accurately reporting their household income and circumstances. Project managers' errors caused a smaller percentage of the errors.

### **Tenants Failed to Accurately Report Household Circumstances**

Of the estimated 2,583 units that received improper rental subsidies of \$4,715,697, we estimate 1,716 of the units received \$3,633,826 because of tenant reporting errors (see exhibit D, schedule 4).

Tenants were informed of the requirement to timely report changes in their household circumstances (e.g., income, household composition) at the initial and subsequent annual certifications. During the audit, we observed project managers discussing with tenants lease provisions and the requirements that they timely report changes in household circumstances.

Further, our tenant interviews found that the tenants were aware of the reporting requirements and failed to timely report changes in their household circumstances (primarily income). However, project managers did not have an independent source to collaborate the tenant-supplied information. An example follows:

- **Case A** – The tenant, who had resided in the project since January 1999, worked for the same employer since the third quarter of 1999. However, she reported none of her earnings to the project manager. She reported child support as her only source of income each year. In January 2002, the tenant was re-certified for 12-months. According to the certification, her total income was about \$6,000 per year from child support. Because of the low-income, her rent was only \$25 per month with subsidies of \$510 monthly.

We identified the tenant's employment through a match of her SSN with the information in the FDLE files. The employer verified to us her employment since 1999 and her wages from that time. We computed the tenant had received excessive rental subsidies of \$12,788 for the period January 2000 through April 2002, and would receive an additional \$1,576 during the remainder of the certification period, May 2002 through December 2002.

### **Project Managers' Certification Errors**

We estimate that 866 (6.97 percent) units received improper rental subsidies totaling \$1,081,871 because of project managers' certification errors (see exhibit D, schedule 5). The project managers' errors resulted from incorrectly computing income and adjustments and not verifying all household members' incomes.

Examples follow.

- **Case B** – The project manager failed to act on information available in the tenant's file. As part of the certification process, the manager required tenants to obtain a work history printout from the local unemployment office. The project manager made two errors in computing the tenant's adjusted income. The first error was not executing a verification of employment for a second job that was revealed by the printout. The second error was not resolving a discrepancy between the printout wages of \$29,678 as compared to base salary of \$20,194 on the verification of employment for the primary job.

We contacted both employers who verified a total income of \$36,332, as compared to the certified income of \$20,194. The tenant paid \$457 in rent and received \$240 in subsidies monthly. We computed the tenant had received excessive rental subsidies of \$6,108 for the period August 2000 through April 2002, and would receive an additional \$720 during the remainder of the certification period May 2002 through July 2002.

- **Case C** – The project manager did not include the Medicaid insurance premium as an allowable deduction to income. As a result, the tenant received \$36 less rental subsidies than entitled each month. We computed the tenant was entitled to additional rental subsidies of \$180 for the period December 2001 through April 2002, and should receive an additional \$252 during the remainder of the certification period May 2002 through November 2002.

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## **RECOMMENDATION NO. 1**

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Review the certifications of the 79 tenants who received excess subsidies totaling \$153,938 and establish a claim and collect the over payments. (See exhibit C.)

### **Agency Response**

In its May 19, 2003, response, RD stated,

*\* \* \* At this time, The Agency cannot agree or disagree with the amount of \$153,938 as excess subsidy, therefore, the Agency partially accepts Recommendation No. 1. The Agency will review the certifications of the 79 tenants who received excess subsidies as reported by OIG. In those cases where the management agent improperly verified tenant incomes, the Agency will establish a claim and collect the payments in accordance with RD Instruction*

*1951.661 and 1930-C, Exhibit E. In those cases where the tenant improperly reported income, the management agent will establish a claim against the tenant and the management agent will attempt to collect the underpayments. The Agency will monitor the collection efforts, but once the tenant vacates the units, the Agency and the management agent will cease efforts to collect the overpayment unless OIG is willing to pursue the collection efforts through criminal proceedings. The management agents will notify the following credit reporting agencies (Experian, Trans Union and Equifax) for each tenant that terminated their lease and failed to make restitution. The [SO] will issue an MFH [Multi-Family Housing] Management Memorandum for guidance on notifying the credit reporting agencies and the methodology for collecting and processing tenant underpayments. The bad debt on the tenant's credit report will assist in collecting restitution should the tenant decide to apply as a tenant in another project or seek funding within our Single Family Housing program. In those cases where the tenant can make restitution, The Agency along with the management agent will provide adequate time for restitution. The Agency requests that OIG provide the [SO] with a copy of all documents used to verify overpayments for each tenant and the procedures to calculate the values in Schedule C.*

### **OIG Position**

We agree with the SO's action to review the certifications of the 79 tenants and have furnished the requested documentation. However, we disagree with the SO's position that the agency and the management company will cease efforts to collect overpayments caused by the tenants unless OIG is willing to pursue criminal proceedings. The excessive RA represents an overpayment of Federal funds and as such it should be recorded and accounted as a debt receivable.

RD Instruction 1951-N, "Rural Development Instruction, Part 1951-Servicing and Collections," prescribes policies and procedures for servicing cases where unauthorized financial assistance is received. In cases where excess rental subsidies are paid due to a tenant's failure to report accurate information, the borrower-landlord will provide the tenant with a notice of intent to recoup improper benefits. The borrower will inform the District Director of the agreement made by the tenant to repay. In the event that the tenant does not repay through active collections efforts, including legal remedy, the borrower will report the facts to the

District Director. The District Director will report to the State Director who will obtain the advice of OGC on further actions.<sup>6</sup>

RD Instruction 1951-N also provides that when an audit determination that unauthorized assistance has been granted, the Finance Center will be notified of necessary account adjustments. The instruction states that in cases of unauthorized assistance identified by OIG, it will be reported to the Finance Center and be recovered. The District Director will prepare and submit Form 1951-12, "MFH Record Adjustment - Audit Claim" to the Finance Center. The District Director will report to the SO the repayment of unauthorized assistance by account name, case number, account code, audit report number, finding number, date of claim, amount of claim, amount collected during the period, and balance owed at the end of the reporting period.

Further, Departmental Regulation 1720-1, "Audit Follow-up and Management Decision," requires that for disallowed costs identified by audits, the agency will ensure the prompt recording and proper management of claims/accounts receivable. The claims must be established and managed in accordance with USDA accounting standards and the Debt Collection Improvement Act of 1996.

To reach management decision, we need documentation of the SO's review of the 79 certifications and copies of the resulting claims, which have been recorded as receivable on the agency's financial system.

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<sup>6</sup> RD Instruction 1951-N, section 1951.661(a)(3)(i), revision 2, dated May 2, 1985.

## CHAPTER 2

## STATE AND AREA OFFICE CONTROLS NEED IMPROVEMENT TO REDUCE TENANT ABUSE

### FINDING NO. 2

The SO had not sufficiently implemented controls to ensure the accuracy of project managers' tenant certifications. RD's prescribed controls were that SO's (1) conduct supervisory reviews of each RRH project on a 3-year cycle and (2) perform wage and benefit matches on at least 10 percent of all tenant households annually and on the households sampled during supervisory reviews. The State had not fully implemented the wage and benefit match requirements. For the 12-month period May 2001 through April 2002, the State obtained wage and benefit matches for 1,074 adult household members even though the minimum requirements equated to 3,674. Also, the SO did not request wage and benefit matches for new households moving into the projects as recommended by the RD national office. In addition, the supervisory reviews were generally limited to a file review and tenant interview for sample households and not of sufficient depth to detect the material problems identified by this audit. The SO relied on the AO's to implement wage and benefit matching requirements and conduct supervisory reviews with little oversight. As a result, 2,583 units received improper rental subsidies. (See finding no. 1.)

Triennial supervisory visits are RD's control to monitor project managers' compliance with RD tenant certification requirements and quality of tenant certifications. The purpose of the supervisory review is to assess tenant eligibility (income and adjustments), project maintenance, insurance coverage, status of loan payments and a project's overall financial condition<sup>7</sup>. RD Instruction 1930-C, exhibit F, provides AO's guidance in planning, performing, and reporting review results. The instructions for the tenant certification review component requires that the AO's use a random sampling technique to select tenants. The review consists of examining the sample of tenant files, interviewing the tenants, and visiting the apartment units<sup>8</sup>.

Wage and benefit matching is a valuable tool to detect tenants' misreporting of income and prevent the payment of improper rental subsidies. Although the information may be three to six months old, it provides an effective lead for identifying past and present information not reported by the tenant. The authority for RD to conduct wage and benefit matching is the Deficit Reduction Act of 1984, Public Law 98-369, Section 2651 and 20 Code of Federal Regulations 603. In April 2001, the RD

<sup>7</sup> RD Instruction 1930-C, part 1930.119 (b), dated August 30, 1993.

<sup>8</sup> RD Instruction 1930-C, exhibit F, dated August 30, 1993.

National Office issued an AN that placed minimum requirements on SO's for performing wage and benefit matches<sup>9</sup>. The SO was responsible for entering into wage and benefit matching agreements with the appropriate SA, and establishing guidelines for wage and benefit matching. The SO's were to perform wage and benefit matches on between 10 and 20 percent of RRH units annually, and sampled tenant households during supervisory reviews. In addition, the AN encouraged wage and benefit matches be performed at initial certifications when households moved into the units.

The AN expired on April 30, 2003, (one year after its effective date). As of May 2003, the RD National Office had not reissued the AN or other guidance on wage and benefit matching.

In October 1999, the SO updated an agreement FDLES and FDLE to perform wage and benefit matching for RRH tenants. The agreement contained a restriction that RD not disclose information on the match to other parties. A RD SO official told us this restriction, based on Florida's Privacy Act, prohibited the agency from furnishing the wage and benefit information to the RRH project managers because they were not agency employees.

### **Minimum Matching Requirements Not Met**

The SO had not developed procedures to ensure wage and benefit matches were performed in accordance with the AN requirements -- at least 10 percent of all tenant households annually and households sampled during supervisory reviews. For the period May 2001 through April 2002, the SO requested wage and benefit matches for 1,074 adults. The matches equated to 29 percent of the minimum number of adult tenants that were required to be matched. (See table 3.)

**Table 3**

<b>Matching requirement shortfall</b>	
Total RRH units	20,667
Units at 95% occupancy	19,634
Projected no. of adults per unit	1.27
Total Adults	24,935
No. of expected matches:	
10-percent requirement	2,493
Supervisory review requirements <sup>1</sup>	1,183
Total expected	3,674
No. of matches performed	1,074
Percent of Expected Matches	29%
<sup>1</sup> The estimate based on minimum sample size of 6 units per project reviewed	

<sup>9</sup> RD AN No. 3647 (1930-C), dated April 17, 2001.

The SO could not differentiate between whether the matches resulted from the 10-percent review requirement, the supervisory review sample requirement, or a project manager's request due to suspicion of improper reporting by a tenant. SO officials informed us that project managers could request matches if they suspect a household may be misreporting income. In addition, the State did not conduct matches for all tenants moving into projects for the first time, as encouraged by the national office.

SO officials stated that their interpretation of AN 3647 was that only 10 percent of the households required wage matching which included matches performed as part of supervisory reviews. Based solely on the 10-percent requirement, the SO should have matched 2,493 (see table 3). In this case, the 1,074 actual matches equated to only 43 percent of the minimum requirement. SO officials also stated that the wage matching requirements were only required for the period the AN was in effect May 2001 through April 2002. The April 17, 2001, AN provided:

*Effective immediately, [SO] staffs will: 1. Develop a State Issuance. Prepare State Supplements or other appropriate issuances as necessary to ensure proper implementation of the provisions set out in this AN. \* \* \**  
*4. Determine when and how often to conduct wage and benefit matches.\* \* \**  
*b. Multi-Family Housing (MFH). Where there is a current MOU [memo of understanding] with the State Department of Labor or similar agency, RHS will ensure wage and benefit matches are conducted on those residents scheduled to be interviewed prior to conducting supervisory visits requiring such interviews. In addition, [SO's] will establish routines to ensure that wage and benefit are performed each year on at least 10 percent of all the units in the State for MFH programs. Normally, wage and benefit will not exceed a 20 percent level for MFH programs. Wage and benefit matches are encouraged for initial tenant certifications of those moving into projects for the first time. Wage and benefit matches for MFH programs includes Labor Housing residents whose eligibility or receipt of subsidy is determined in whole or in part on wage or benefit data. \* \* \**

The SO had not prepared State supplements or other issuances to implement provisions of the AN such as what percentage would be matched (10 to 20 percent).

A SO official stated that the AN requiring wage and benefit matching was provided to the AO's and that they were responsible for its implementation. However, the AO's had not ensured that the matching requirements were fully implemented.

### **Inadequate Supervisory Reviews**

The triennial supervisory reviews were generally limited to a file review and tenant interview for sampled households and were not of sufficient depth to detect the problems identified by this audit. To assist in their evaluations, AO's are required to select a random sample of tenant certifications (at least 6 units or 100 percent for projects having 6 or less units) and obtain wage and benefit matches on the sampled households to assist in their evaluations. We reviewed the most recent supervisory review files for 30 of the 31 projects that we randomly selected for this audit. One of the 31 projects was new and a supervisory visit was not required. The AO's reviewed a sample of 245 tenant certifications during their visits to the 30 projects.

The AO's supervisory reviews were generally limited to a review of tenant files (project manager's documentation of income/expenses and computations of rent and subsidies) and tenant interviews. Wage and benefit matching of the sampled households were generally not performed as required and when performed, matches were limited to the tenant and co-tenants. All other household members including adults other than the tenant and co-tenant were not matched. An example of the value of wage and benefit match information follows:

- **Project A** - In February 2001, an AO supervisory review was completed for a labor-housing project that was in our sample. The AO randomly selected 8 (10 percent) of the project's 80 units for review. The supervisory review consisted of reading the tenant certification files and tenant interviews. The reviewer did not detect any problems and rated the project as "satisfactory" with no followup required.

Our review found that 7 of the 10 tenants we sampled were improperly certified. For 6 of the 7 tenants, our wage match revealed co-tenants' incomes were not included in the certification resulting in excess rental subsidies of \$18,642. The project manager only requested and verified the primary tenants' incomes. The project manager told us she counted only the primary tenant's income and this policy had been in place since she began managing the project in 1998. This material noncompliance should have been detected by the supervisory review.

The AO's did not review the minimum sample size for 5 of the 30 project reviews and generally had not used wage and benefit matches for the sampled households. Of the 30 supervisory reviews, 20 were conducted prior to issuance of AN 3647 in April 2001. The AO's generally did not obtain wage and benefit matches to assist in the 20 reviews. The AN required wage and benefit matches for the households sampled during reviews of the other 10 projects. Our examination of the AO's supervisory reviews for the 10 projects showed that wage and benefit matches were not obtained for 6 projects. Officials, at one of the AO's, told us that they did not perform wage and benefit matches as part of its supervisory review process. This AO was responsible for 159 projects with 6,691 units -- 32 percent of the State's 20,667 RRH units. In most cases, reviewers at the other AO's also did not request matches and when requested, were only for the tenant and co-tenant.

The reviewers questioned certification actions for 25 of the 245 sampled units for the 30 projects. The questioned actions may or may not have resulted in an improper subsidy error. When the reviewers identified questionable certifications (actual or suspected errors), they did not compute the amount of the rental subsidy error but referred the information to the project manager for followup and appropriate actions. In contrast, we found that 94 of the 301 tenant certifications we tested at the projects contained errors that resulted in improper rental subsidies of \$167,074. (See finding no. 1.) Exhibit E shows details and comparisons of the AO and OIG reviews.

The AO files did not always contain documentation to support the reviews, computations, and followup actions taken by management companies to timely resolve the discrepancies and initiate recovery of overpayments as appropriate. The results from the supervisory reviews were not compiled on an area or statewide basis and projected to the universe to assess the overall quality of tenant certifications. As a result, there is no assurance that supervisory reviews improved the quality of tenant certifications and reduced rental subsidy payment errors. Further, an effective control to measure the accuracy of rental subsidy payments and develop corrective actions was not effectively used.

SO officials stated that there is not a requirement to compile supervisory visit results to assess the overall quality of tenant certification.

#### **Wage Match Results Should be Made Available to Project Managers**

Project managers did not have an independent source of information such as wage and benefit matching data to assist them in estimating households' annual incomes and assess the validity of the tenants' SSN's. Matching could be effective in detecting and preventing tenant abuse if

they were conducted at initial certification and at annual re-certifications and the information made available to project managers.

We discussed the restriction in the matching agreement that prohibited disclosure of the information to the project managers with USDA's OGC and representatives of FDLE and FDLES. OGC advised us that if all parties agreed, the agreement could be revised to permit disclosure of the information to project managers. An official with FDLES told us that the SA was agreeable to amending the agreement to permit the disclosure. FDLES has agreements with several other Government organizations that permit private vendors and contractors to review the match information. The FDLES representative stated that similar to these other Government organizations, RD would have to enter into confidential agreements with the management companies/project managers to safeguard and not disclose the information. The FDLE representative also stated that his agency was agreeable to such a revision.

Requiring that all households be matched at certification and re-certification and that project managers have access to the information would eliminate the requirement that AO's match 10 percent of all households annually.

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## **RECOMMENDATION NO. 2**

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Work with FDLE and FDLES to revise the wage and benefit match agreement to permit use of the information by project managers.

### **Agency Response**

In its May 19, 2003, response, RD stated,

*\* \* \* The Agency partially agrees to Recommendation No. 2. The Agency agrees to work with FDLE and FDLES to revise the wage benefit match agreement, however, we have no assurance that the agreement can be modified to permit use of the information by project managers. If the agreement cannot be modified to disclose the information to project managers, this recommendation cannot be implemented. The Agency requests the recommendation be modified.*

### **OIG Position**

Our discussion with FDLE and FLDES officials revealed that both agencies were willing to work with the SO to amend the agreement to permit sharing of the wage and benefit matching information with project managers. A member of FLDES' legal staff stated that FLDES has

agreements involving other Government programs in which non-government third parties, similar to managers of RD's multi-family housing projects, receive the wage and benefit match information. The amended agreement will provide a tool to help project managers identify income that is not reported by tenants.

To reach management decision, we will need details and timeframes for implementing the recommendation.

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**RECOMMENDATION NO. 3**

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Develop and issue a State policy to require wage and benefit matching be conducted on all households at initial certification and at each re-certification and used by project managers during the certification process.

**Agency Response**

In its May 19, 2003, response, RD stated,

*\* \* The Agency disagrees with Recommendation No. 3. [RD] AN 3647 stated, "Wage and benefit matches are encouraged for initial tenant certifications of those moving into projects for the first time." The Audit Report has imposed a requirement that is not supported by AN 3647 in two ways: First, making it mandatory that wage and benefit matching is conducted on all households at initial certifications; and Secondly requiring wage and benefit matching on all recertifications. Essentially, we would be performing wage and benefit matching on all households in Florida or approximately 24,935 adults within a twelve month period. We do not think that was the intent of AN 3647, and therefore, disagree with this recommendation. The Agency does support and will encourage wage and benefit matches for initial tenant certifications of those moving into projects for the first time.*

**OIG Position**

This is one of a series of recommendations (nos. 3 through 7) designed to improve the State's tenant certification error rate by providing a consistent methodology for verifying and computing tenant income and housing subsidies. Recommendation No. 3 is intended to improve project managers' ability to identify unreported incomes and assist in reducing subsidy overpayments. Our review disclosed a 20-percent tenant certification error rate in the State. Wage and benefit matches for all

tenants can be an effective tool for reducing payment error rates without placing an undue burden on project management.

AN 3647 expired April 30, 2002. As of May 2003, the RD National Office had not reissued the AN or other guidance regarding wage matching. Therefore, the SO has discretion in regards to wage matching. Performing 24,935 wage and benefit matches annually would equate to less than 5 matches on average monthly per housing project (24,935 matches/465 projects = 54 matches per project, 54 matches/12 months = 4.5 matches per project monthly). With today's technology and communication links, an average of five matches per project monthly does not appear overly burdensome.

To reach management decision, we need a time-phased plan to implement the recommended action.

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**RECOMMENDATION NO. 4**

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Develop and issue procedures for supervisory reviews that require AO's to wage and benefit match all household members for selected households prior to supervisory reviews and

document the reviews and corrective actions taken.

**Agency Response**

In its May 19, 2003, response, RD stated,

*\* \* \* The Agency disagrees with Recommendation No. 4. RD Instruction 1930-C is the procedure that outlines the requirements for conducting supervisory reviews; the [SO] does not issue procedures but issues [AN's] and Management Memorandums. The [SO] has implemented management memorandums on wage and benefit matching. The [SO] will issue a new management memorandum requiring Area Offices to wage and benefit match all selected adult household members prior to supervisory reviews to meet the requirements of AN 3647 and RD Instruction 1930-C, Exhibit F-1. RD Instructions 1930-C outlines the corrective actions required for Supervisory Visits and Compliance Reviews; therefore, no other corrective actions are necessary. The [SO] currently monitors Supervisory Reviews and follow-up actions required by the Area Office.*

## **OIG Position**

We agree with the State's position to require AO's to obtain wage and benefit matches prior to supervisory reviews. However, our position remains unchanged regarding the need to document the review results and corrective actions.

Our audit disclosed that the supervisory reviews were not of sufficient depth to detect the problems identified by this audit and develop needed corrective actions. Because the supervisory reviews generally did not determine whether improper payments occurred, they were not effective for (1) measuring tenant certification error rates and payment accuracy and (2) determining corrective action needs.

To reach management decision, we need details and timeframes for implementing the recommended actions. The actions should include (1) obtaining wage and benefit information on sampled units prior to supervisory reviews, (2) verifying the accuracy of tenant certifications, (3) computing the improper rental subsidies when errors are detected, (4) establishing claims when appropriate, and (5) developing corrective actions, as appropriate.

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### **RECOMMENDATION NO. 5**

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Require the AO to review the tenant certification for all 80 units at project A and recover excessive RA from the borrower.

## **Agency Response**

In its May 19, 2003, response, RD stated,

*\* \* \* The Agency partially accepts Recommendation No. 5. The [SO] request a copy of the interview transcript in which the project manager admitted to OIG that, "she counted only the primary tenant's income and this policy had been in place since she began managing the project in 1998." Since the Agency was not privileged to this conversation, the Agency believes the Borrower will object to this claim without a transcript of the interview. The Agency requests that OIG provide the [SO] with a copy of all documents used to verify underpayments for each tenant. The Agency will review the tenant certifications for all 80 units at Project A and will attempt to recover excessive RA that can be verified based upon our review. The Agency will develop a strategy to preserve the project financially and collect unauthorized assistance payments in accordance with RD Instruction 1951.661 and 1930-C, Exhibit E.*

**OIG Position**

We have provided the SO with the requested information including the project manger's comments regarding her policy of not counting co-tenants' incomes. Six of the 10 sampled units we reviewed at project A received excess RA because co-tenants' incomes were not included in the tenant certifications.

We can accept management decision once the SO provides us with the results of its review of the 80 tenant certifications and resulting claims for improper payments.

**FINDING NO. 3**

The SO had not provided sufficient guidance to project managers for computing and projecting fluctuating incomes or required wage matches for tenants to assist in eligibility determinations. Tenants with earned income were more prone to certification errors due to a variety of reasons including multiple employers, fluctuating earnings, and season employment. These variables generally require that project managers forecast the households' expected future incomes. In addition, tenants and household members may not always be citizens or legal aliens. We found that the citizenship status of 24 of the 189 adults residing in the labor-project units was questionable.

**Apparent Illegal Aliens Receiving Housing Benefits**

RD requires that tenants be a U.S. citizen or legally admitted for permanent residence. As part of the application and eligibility process, tenants provide project managers with their SSN or resident alien card as identification. Our statistical sample of 301 tenant certifications included 111 labor-housing units. Our review of the 301 tenant certifications disclosed SSN's for 24 of the 417 adults residing in the units were invalid, inaccurate, or not obtained by the management companies at certification. All of the questionable SSN's belonged to tenants of labor housing units. (See table 5).

**Table 5**

Project Type	No. of Adult Tenants	
	Occupying Units	Incorrect SSN's
Labor	188	24
Family/Elderly	229	0

Our analysis of the 24 tenants with questioned SSN's found (1) 9 provided a SSN belonging to another individual, (2) 4 provided SSN's that were invalid; (3) 7 where the project managers did not obtain a SSN from the tenant, and (4) 4 where the project manager assigned a pseudo SSN.

We interviewed the tenants and were told that they did not have a valid SSN, the SSN used had been purchased or it was assigned by their employer, or they were not asked to provide it. Examples of improper reporting of SSN's by tenants follow.

- **Case E** - The tenant listed on the certification and wage match was not the individual residing in the apartment. The tenant told us he had assumed the identity of a person from Guatemala. The tenant stated that he was from Mexico and obtained a copy of the other individual's birth certificate to establish his identity to enter the United States. He worked using the assumed SSN. RD provided \$1,476 of RA to this household for July 2001 through June 2002.
- **Case F** - A wage match for another tenant identified several individuals working under the same SSN. The tenant told us that the SSN was from a counterfeit social security card that he purchased along with an Immigration and Naturalization Service "Authorization of Employment" card for \$120. RD provided \$1,062 of RA to this household for the period March 2002 through August 2002.

Project managers stated they were not required to verify the validity of identification (e.g., social security card). Thus, project managers did not determine that tenants were a citizen or legally admitted for permanent residence.

#### **Guidelines of Computing Annual Incomes Needed**

Earned incomes of tenants are not always easily verifiable. They often work several jobs during the course of the year, experience periods of unemployment, and draw unemployment benefits during this time. Verification of labor housing tenant incomes are more difficult because their work may be seasonal, they may be paid in cash, and they do not always maintain records to support their incomes. RD procedures provide that when the tenants do not have easily verifiable incomes, the project manager should forecast income expected to be received during the 12-month certification period<sup>10</sup>. Our review showed that certifications of labor-housing tenants were more error prone than those for family and elderly units. (See table 4.)

**Table 4**

Project Type	RA		RA Payment	
	Units	Percent	Errors	Percent
Labor	2,242	21.7	\$1,395,869	38.7
Family	4,486	43.4	1,742,800	48.4
Elderly	3,598	34.9	<sup>1</sup>	<sup>1</sup>
<b>Total</b>	<b>10,326</b>	<b>100.0</b>	<b>\$3,601,964</b>	<b>100.0</b>

<sup>1</sup> Reliable statistical projections could not be made.

<sup>10</sup> RD Instruction 1930-C, exhibit B, Section VI, pages 60 - 61, dated August 30, 1993.

Farm labor-housing units are eligible for RA only. If a labor-housing tenant's family income exceeds the moderate-income threshold, it is ineligible to occupy the unit. As shown in table 4, labor-housing units represented only 21.7 percent of all RA units but they accounted for 38.7 percent of the payment errors. Labor housing tenants must perform agriculture work at one or more locations away from the place he/she calls home, and receive a substantial portion of income from farm employment. In contrast, tenant certifications at elderly projects posed a much lower risk. The elderly, handicapped, and disabled households' incomes were more easily verifiable because they were primarily from stable fixed non-wage sources (e.g., retirement or Social Security).

Although the supervisory reviews were generally not substantive (see finding no. 2), in one case the review of a labor-housing project was comprehensive and identified material deficiencies similar to those we found. Details were:

- **Project B** - The AO randomly selected 15 of the project's 176 units for review. The reviewer requested wage matches only for a unit's primary tenant. The reviewer found errors with all 15 files and rated the project as "unsatisfactory." In a written report to the management company, the AO manager stated, "your file review failed in almost every category and was the poorest I have ever seen in 20 years." The reviewer found:
  - All 15 files contained errors
  - In 14 cases, tenant incomes were not verified or correctly computed.
  - In 4 cases, tenant files did not contain a lease
  - In 3 cases, tenants were not United States citizens or legally admitted for permanent residence.

The wage match obtained by the reviewer identified income discrepancies for 12 (80 percent) of the 15 units when compared to the tenant certifications. The wage match identified incomes from second jobs, SSI, unemployment, and wages that were either not reported or under reported.

The SO had not provided sufficient guidance to project managers for a consistent method of computing and projecting fluctuating incomes. Project managers used a variety of methods to project tenant income that included using (1) the prior year's tax return, (2) W-2 forms provided by tenants, or (3) annualizing a pay stub. Project managers expressed

concerns over the lack of guidance for computing or estimating tenant incomes.

Wage and benefit match information shows a person's in-state work history and earnings for the past 6 calendar quarters. In many cases, had the match information been available to project managers, they could have seen that the households' failed to properly report their incomes and reduced the payment errors. For example:

- **Case G** – A project manager projected the household's income based on the primary tenant's W-2 form and unemployment compensation. The project manager certified the household income as \$18,348 based on one household member's income. The tenant paid rent of \$284 and received \$59 of RA per month. Our wage and benefit match identified that a co-tenant was also working and her income was not reported. The employers for both tenants verified the household's income as \$44,667. The tenant received excessive RA of \$492 for the period of August 2001 through July 2002. Further, the tenant was recertified in August 2002, and would receive excess RA totaling \$492 over the 12-month period ending July 2003.
- **Case H** – Another project manager projected a household's income at \$14,419 based on the tenant's W-2 form and unemployment compensation. Our match revealed the tenants had a second employer and that income was not reported. We determined that the household's income was \$33,939. The household paid rent of \$200 and received \$90 of RA per month. We determined that the tenant had received excessive RA of \$1,818 for the period of April 2001 through April 2002, and would receive additional RA totaling \$990 for the balance of the certification period ending March 2003.

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## **RECOMMENDATION NO. 6.**

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Develop guidelines for use by project managers to estimate annual incomes used to determine tenant rents and rental subsidies.

### **Agency Response**

In its May 19, 2003, response, RD stated,

*\* \* \* The Agency disagrees with Recommendation No. 6. The National Office is charged with developing procedures, issuing [AN's] and Unnumbered Letters. RD Instruction 1930-C, Exhibit B, VII is the specific Instruction*

*for verification of income. When tenants do not have easily verifiable income, the Borrower may "forecast" income expected to be received by the tenant during occupancy for determining eligibility and subsidy assistance. Additionally, when third party verification is not possible or available, the Borrower may "self-certify" the farm worker applicant using available documents or records the applicant may have or information the applicant can provide. The Agency agrees that guidelines should be developed; however, we believe that is the role of the National Office rather than the [SO].*

### **OIG Position**

Our review disclosed that guidance to project managers for a consistent method of forecasting fluctuating incomes was needed. Also, project managers expressed concerns over the lack of guidance for forecasting and estimating tenants' annual incomes. Although the SO agreed that such guidance was necessary, it deferred the responsibility to the national office. The SO is responsible for managing activities in Florida and as such should be proactive in developing guidelines for project managers to forecast tenants' annual incomes. The SO may work with the national office in developing guidelines to provide a consistent method of computing and projecting income for tenants whose income fluctuates.

To reach management decision, we need a time-phased plan to develop guidelines for use by project managers to estimate annual income used to determine tenant rents and rental subsidies.

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### **RECOMMENDATION NO. 7**

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Establish procedures for labor-housing projects to ensure that only United States citizens and legal residents were permitted to reside in the projects and receive RA.

### **Agency Response**

In its May 19, 2003, response, RD stated,

*\* \* \* The Agency accepts Recommendation No. 7 but notes that the only guidance provided in RD Instruction 1944.153 are definitions for a "domestic farm laborer" and "migrant agricultural laborers". No other guidance is provided in RD Instruction 1944-E or RD Instruction 1930-C nor have any [AN's] been issued by the National Office on tenant eligibility at farm labor housing properties. It is our opinion that the National Office should establish these*

*procedures, since they are responsible for revising and issuing new regulations and instructions for state and field offices. \* \* \* The management agent is responsible to ensure that tenants, to be eligible for agency assistance, must be either a U.S. citizen or provide acceptable evidence of eligible immigration status. Any tenant who is neither a U.S. citizen nor a qualified alien should be rejected. The [SO] will seek approval from the National Office to use Exhibit 4-5, "Acceptable Evidence of Qualified Aliens" from the 3550 Single Family Housing Field Office Handbook as a means to establish a procedure to document evidence of a qualified alien. If approved, the [SO] will notify all management agents to use Exhibit 4-5 as a method to document evidence of qualified aliens. If there is a question about the authenticity of the information provided, the management agent will contact the Immigration and Naturalization Service for verification. The [SO] will require that all tenant applications contain a question about citizenship. If the question is not appropriately checked, then the tenant will be required to furnish documentation that they are qualified aliens.*

#### **OIG Position**

We agree with the proposed actions. To achieve management decision, we will need a time-phased plan for implementing the proposed actions.

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**EXHIBIT A - SUMMARY OF MONETARY RESULTS**

<b>FINDING NO.</b>	<b>DESCRIPTION</b>	<b>AMOUNT</b>	<b>CATEGORY</b>
1	Estimated excessive rental subsidies payment	\$4,444,392	Question Cost - No Recovery Recommended
1	Estimated underpaid rental subsidies	\$(271,305)	Questioned Cost - Underpayments
1	Estimated annual subsidy payment errors	\$3,183,516	Savings Management Improvements
1	Rental subsidy overpayments to 79 tenants	\$153,938	Questioned Cost - Recovery Recommended

## EXHIBIT B – AUDIT SITES VISITED IN FY 2002

<b>Rural Development Offices</b>	<b>Location</b>
SO	Gainesville, Florida
Area Office II	Marianna, Florida
Area Office III	Ocala, Florida
Area Office IV	Tavares, Florida
Area Office V	West Palm Beach, Florida
<b>Rural Rental Projects</b>	<b>Location</b>
Summerbrook Apartments	Chipely, Florida
Quail Run Apartments	Defuniak Springs, Florida
Liberty Manor Apartments	Port St. Joe, Florida
Golden Leaf Apartments	Quincy, Florida
Southern Villas Apartments	Perry, Florida
Oaktree Apartments	Jasper, Florida
Triple Oaks Labor Housing	Quincy, Florida
Inverness Club Apartments	Inverness, Florida
Briarwood Apartments	Middleburg, Florida
Parke Forest II Apartments	Leesburg, Florida
Anastasia Apartments	St. Augustine, Florida
Sivelle Family Farm Labor	Sivelle, Florida
Southwind Apartments	St. Cloud, Florida
Panasoffkee Apartments	Panasoffkee, Florida
Anclothe Villas Apartments	Hudson, Florida
Highland Ridge Apartments	Haines City, Florida
Winter Gardens I Apartments	Winter Garden, Florida
Montclair Village Labor Housing	Leesburg, Florida
East Hillsborough Labor Housing	Plant City, Florida
Tall Pines Labor Housing	Eustis, Florida
Salerno Cove Apartments	Stuart, Florida
Toney Pena Apartments	Jupiter, Florida
Stephenson Manor Apartments	Jupiter, Florida
Sugar Cane Villas Apartments	Pahokee, Florida
Harvest Center Labor Housing	Homestead, Florida
Amaryllis Gardens Labor Housing	Pahokee, Florida
Okeechobee/Osceola Labor Housing	Belle Glade, Florida
Victory Park Labor Housing	Vero Beach, Florida
Golden Acres Labor Housing	Pompano Beach, Florida
Everglades Farm Village Labor Housing	Homestead, Florida
Farmworks Village Labor Housing	Immokalee, Florida

## EXHIBIT C - SAMPLE CERTIFICATION REVIEW RESULTS

Page 1 of 3

We found that 94 of 301 (31 percent) sampled certification forms did not accurately reflect the tenants' adjusted income or household composition. The following charts present the results of the 301 tenant certifications reviewed and a list of the 94 error cases.

### Schedule 1

PAYMENT ERROR	NO. OF UNITS	SUBSIDY	SUBSIDY ERRORS				
			PAY'T ERRORS	PERCENT OF TOTAL	PRIOR MONTHS	FUTURE MONTHS	TOTAL
APRIL							
OVER	70	\$15,057	\$8,356	55.5%	\$65,385	\$72,821	\$146,562
UNDER	14	\$2,193	\$957	43.6%	\$5,174	\$6,040	\$12,171
<b>SUBTOTAL</b>	<b>84</b>	<b>\$17,250</b>	<b>\$9,313</b>	<b>54.0%</b>	<b>\$70,559</b>	<b>\$78,861</b>	<b>\$158,733</b>
OTHER PERIODS							
OVER	9	\$17	N/A	N/A	\$0	\$7,376	\$7,376
UNDER	1	\$2,219	N/A	N/A	\$0	\$965	\$965
<b>SUBTOTAL</b>	<b>10</b>	<b>\$2,236</b>	<b>N/A</b>	<b>N/A</b>	<b>\$0</b>	<b>\$8,341</b>	<b>\$8,341</b>
NO ERRORS	207	\$54,347	N/A	N/A	N/A	N/A	N/A
<b>TOTAL</b>	<b>301</b>	<b>\$73,833</b>	<b>\$9,313</b>	<b>12.6%</b>	<b>\$70,559</b>	<b>\$87,202</b>	<b>\$167,074</b>

### Schedule 2

IMPROPER INCOME REPORTED BY TENANTS									
				Payment Errors					
Sample No.	Certification Period(s)	Income Variance	Cause	Sample Month		Certification Period		Prior & Future Year(s)	Absolute Total
				RA	IC	Prior Months	Remaining Months		
16	12/01 – 11/02	\$10,769	A		\$105	\$525	\$630		1,260
11	01/02 – 12/03	15,741	D	\$351	43	1,182	3,152	\$9,636	14,364
18	10/01 – 09/02	10,607	B		118	708	590	1,254	2,670
31	03/02 – 02/03	0	C				1,485		1,485
33	09/01 – 08/02	2,920	D	73		511	292		876
35	09/01 – 08/02	17,223	A	161	204	1,095	1,460	1,416	4,336
32	05/01 – 04/02	0	D					804	804
40	09/01 – 08/02	6,091	D		82	902			984
43	09/01 – 08/02	4,591	C	115		345		345	805
46	06/01 – 05/02	27,768	C	264	36	300	300		900
57	02/02 – 01/03	6,436	D	22	139	322	1,449	864	2,796
59	10/01 – 09/02	1,992	D	50		300	250		600
56	11/01 – 10/02	7,640	D	110	81	955	1,146	1,416	3,708
70	03/02 – 02/02	8,565	D	167		167	1,670		2,004
114	11/01 – 10/02	3,674	D	92		460	552		1,104
112	01/02 – 12/02	6,983	D	175		525	1,400		2,100
111	11/01 – 10/02	7,867	B	197		985	1,182		2,364
127	04/02 – 03/03	10,689	B	252	16		2,948		3,216
139	02/02 – 01/03	11,792	D	146	149	590	2,655		3,540
137	11/01 – 10/02	12,419	D	311		1,555	1,866		3,732
149	12/01 – 11/02	(396)	D	(10)					10
145	04/02 – 03/03	(5,554)	D		(31)				31
146	01/02 – 12/02	3,484	D	88		264	704		1,056
153	08/01 – 07/02	12,480	D		115	920	345		1,380

IMPROPER INCOME REPORTED BY TENANTS									
Sample No.	Certification Period(s)	Income Variance	Cause	Payment Errors					
				Sample Month		Certification Period		Prior & Future Year(s)	Absolute Total
				RA	IC	Prior Months	Remaining Months		
160	03/02 – 02/03	20,882	A		149	149	1,490		1,788
168	07/01 – 06/02	(12,681)	E		(21)	(189)	(42)		252
161	08/01 – 07/02	(3,959)	E	(99)		(792)	(297)		1,188
169	03/02 – 02/03	4,487	D		60	60	600		720
165	01/02 – 12/03	4,461	A	112		336	896	273	1,617
177	05/01 – 04/02	0	D					684	684
179	05/01 – 04/02	0	A				363	584	947
176	03/02 – 02/03	6,084	D	79		79	790		948
175	01/02 – 12/02	8,329	F	175		525	1,400		2,100
180	03/02 – 02/03	14,100	A	220		220	2,200	2,328	4,968
187	12/01 – 11/02	(3,607)	E	(91)		(364)	(637)	840	1,932
183	02/02 – 01/03	9,609	F	46		92	414	900	1,452
185	12/01 – 11/02	5,170	D	71		284	497		852
182	12/01 – 11/02	4,665	D	81		324	567		972
184	05/01 – 04/02	8,900	B	223		2,453		2,304	4,980
192	09/01 – 08/02	0	D				156		156
199	10/01 – 09/02	0	C				(965)		965
193	03/02 – 02/03	1,040	D	26		26	260		312
210	04/02 – 03/03	15,126	A		58		638		696
217	01/02 – 12/02	3,048	D		38	114	304		456
218	11/01 – 10/02	1,815	C		46	230	276		552
215	09/01 – 08/02	2,180	C	55		385	220		660
212	09/01 – 08/02	6,560	D	127	37	1,148	656		1,968
250	08/01 – 07/02	26,943	A	41		328	123	492	984
247	10/01 – 09/02	2,370	D	59		354	295		708
242	07/01 – 06/02	3,865	C	163		1,467	(214)	1,284	3,128
248	06/01 – 05/02	24,894	A	339		3,390	339	4,068	8,136
254	08/01 – 07/02	1,024	D	26		78	78		182
256	08/01 – 07/02	1,626	D	41		278	123	276	718
261	04/02 – 03/03	19,520	B	90			990	1,728	2,808
265	10/01 – 09/02	(11,084)	D	(277)		(1,662)	(1,385)		3,324
271	08/01 – 07/02	5,373	D	134		1,072	402		1,608
279	05/01 – 04/02	0	A					732	732
275	04/02 – 03/03	1,120	D	13			143		156
274	10/01 – 09/02	11,204	D	98		558	490	1,176	2,352
291	09/01 – 08/02	5,134	C	10			40		50
282	07/01 – 06/02	1,305	C	32		288	64	1,524	1,908
288	07/01 – 06/02	16,077	F	123		1,107	246		1,476
295	12/01 – 11/02	9,932	F	176		704	1,232		2,112
<b>ABSOLUTE TOTALS</b>				<b>\$5,611</b>	<b>\$1,528</b>	<b>\$31,697</b>	<b>\$43,908</b>	<b>\$34,928</b>	<b>\$117,672</b>

## Cause:

- A- Household member income not reported.
- B- Tenant income not reported.
- C- Change of job conditions (new job or the loss of job) not reported.
- D- Increase in hourly rate, wages, or Social Security benefits not reported.
- E- Decrease in income not reported.
- F- Unemployment, Aid for Dependent Children (AFDC), or Child Support not reported.
- G- Schedule 3.

**Schedule 3**

<b>IMPROPER VERIFICATION BY MANAGEMENT COMPANIES</b>									
Sample No.	Certification Period(s)	Income Variance	Cause	Payment Errors					
				Sample Month		Certification Period		Prior & Future Year(s)	Absolute Total
				RA	IC	Prior Months	Remaining Months		
15	03/02 - 02/03	(\$418)	D	\$10		\$10	\$100	\$108	\$228
50	11/01 - 10/02	2,949	C	74		370	444		888
64	05/01 - 04/02	8,403	A					2,148	2,148
62	02/02 - 01/03	4,285	C	107		214	963		1,284
69	06/01 - 05/03	7,704	A	143		1,430	143	1,716	3,432
65	02/02 - 01/03	35,411	A	168		336	1,512		2,016
67	03/02 - 02/03	16,599	A	177		177	1,968		2,322
66	07/01 - 06/02	21,651	C	218		1,962	436	4,824	7,440
101	07/01 - 06/02	443	B	11		99	22	204	336
113	02/02 - 01/03	2,067	B	52		102	468		622
121	10/01 - 09/02	1,191	D	19	19	228	190		456
147	03/02 - 02/03	(207)	B	(5)		(5)	(50)		60
148	12/01 - 11/02	(1,423)	C	(11)	(25)	144	252		432
151	04/02 - 03/03	(732)	A	(18)			(198)		216
154	02/02 - 01/03	(2,365)	A	(59)		(118)	(531)		708
170	06/01 - 05/02	4,477	B		74	740	74	888	1,776
200	11/01 - 10/02	12,480	A	40		200	240		480
191	04/02 - 03/03	1,820	C	45			495		540
216	02/02 - 01/03	(9,864)	B	(151)	(96)	(494)	(2,223)		2,964
237	03/02 - 02/03	2,075	C	52		52	156	3,696	3,956
236	08/01 - 07/02	10,573	A		240	1,920	720	7,788	10,668
260	02/02 - 01/03	(588)	C	(15)		(30)	(135)	192	372
270	05/01 - 04/02	0	C					204	204
269	03/02 - 02/03	1,168	B	29		29	290	1,500	1,848
278	04/02 - 03/03	5,805	C	145			1,595		1,740
283	04/02 - 03/03	1,040	A	26			286		312
293	05/01 - 04/02	0	A					216	216
301	10/01 - 09/02	(1,507)	A	(38)		(226)	(190)		454
292	04/02 - 03/03	926	A	23			253		276
296	12/01 - 11/02	1,549	A	39		156	273		468
297	12/03-11/02	1,791	B	45		180	315		540
<b>ABSOLUTE TOTALS</b>				<b>\$ 69.00</b>	<b>\$ 144.00</b>	<b>\$ 110.00</b>	<b>\$ 651.00</b>	<b>\$23,484</b>	<b>\$49,402</b>

**Cause:**

- A- Manager did not request a Verification of Employment (VOE) from employer to verify income information.
- B- Error in the calculation of tenant's benefits received (unemployment, child support, AFDC, etc.).
- C- Manager did not use correct figures from VOE or pay stubs to calculate tenant income.

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## EXHIBIT D – STATISTICAL SAMPLING PLAN

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### **Sample Design**

The general statistical sample design for this audit was a stratified two stage random sampling scheme where projects were selected in the first stage and households (i.e., units) were selected for the sampled projects in the second stage. The first stage universe was composed of RD RRH projects in Florida. A 95-percent, two-sided confidence level was used for all the statistical estimates in this review.

#### First Stage

There were a total of 327 RRH projects in Florida in this first stage universe. The 327 projects were stratified into two primary strata according to project type (MAJOR). Project types of family, labor, and congregate were placed in one primary strata (MAJOR=1) and all elderly projects were put in the other primary strata (MAJOR=2). In MAJOR 1 there were 3 strata formed (STRATA 1-3), while MAJOR 2 comprised 1 strata (STRATA 4). In MAJOR 1 there was one large project that was placed in its own separate strata (STRATA 3). The remaining projects in MAJOR 1 were further stratified with respect to the number of RA units in a project using the cumulative square root of the frequencies methodology (Cochran, SAMPLING TECHNIQUES).

Sampford's method was used to select the sample of projects using probability proportionally to size (PPS) without replacement selection. A description of Sampford's method appears below. A sample size of 31 projects was selected. The sample size of 31 was allocated to MAJOR 1 and 2 subjectively with the requirement that at least 3 projects were to be selected from a strata with universe sizes greater than 1. This was required since sample sizes of 2 have been found to lead to undesirable results when using Sampford's method. Thus, a sample size of 3 was subjectively determined in STRATA 4. Since STRATA 3 in MAJOR 1 contained only one project, this project was selected with probability equal to one. The remaining sample size within MAJOR 1 of 27 was proportionally allocated to STRATA 1-2 with respect to the percentage of the RA units within these strata. All projects in STRATA 1-2 and 4 were selected with probability proportional to size without replacement using Sampford's Method with respect to the number of RA units in a project within each strata. The sample unit within each strata was a project. The table below contains the details for this allocation and sample selection.

STRATA	BOUNDARY Number of RA Units	Number of Projects	RA Units	n=31
MAJOR = 1				
1	0-30	148	2,536	10
2	30-200	73	3,918	17
3	Over 200	1	346	1
SUBTOTAL STRATA 1-3		222	6,800	28
MAJOR = 2				
4	All	105	3,526	3
TOTAL		327	10,326	31

## Second Stage

The second stage universe consisted of all RA and IC households for a selected project. The audit staff determined this universe construction when they visited the sampled projects. The RA households were placed in one strata and the IC households were put into another strata. No further stratification was accomplished.

A sample size of 10 households was selected for each selected project. Five households were selected from the RA strata and five households were selected from the IC strata. This sampling scheme resulted in a total sample size of 301 households. The households were selected with equal probability without replacement within each household strata. The sample unit at this level was a RA household or an IC household.

## Statistical Analysis

All statistical sample design, selection, and statistical estimation were accomplished on a DELL Pentium Personal Computer using SAS and SUDAAN. The statistical estimates used for projections along with their standard errors were produced using the Windows version of SUDAAN, a software system that analyzes sample survey data gathered from complex multistage sample designs. SUDAAN was written by B.V. Shah of Research Triangle Institute, Research Triangle Park, North Carolina. MAPLE, a mathematical programming language, was used to calculate the joint inclusion probabilities (i.e., for the projects) needed when using Sampford's method.

The term sample precision (sp), as used in the report for estimating dollar values, ratios of dollar values, and number of occurrences is defined as

$$sp = \frac{t * STDERR}{PTEST}$$

where

t - t factor for a 95-percent, two-sided lower confidence level

PTEST - point estimate (estimate of the total, mean, or number of occurrences)

STDERR - standard error of the point estimate

The sp for estimating percentage values for number of occurrences is defined as

$$sp = t * STDERR$$

where

t - t factor for a 95-percent two-sided lower confidence level

STDERR - standard error of the point estimate (percentage value)

#### Sampford's Method

Projects in the first stage are the primary sample units (PSU) and are selected with probability PPS with respect to the number of RA units in a project. For n sampled PSU's let the probability of selection (i.e., the project number of RA units divided by the strata aggregate number of RA units) be  $z_i$  for each  $i^{th}$  project. Then Sampford's method of selecting PSU's with PPS without replacement is the following:

1. Draw the first PSU with probability  $z_i$
2. Draw all subsequent PSU's with probabilities proportional to

$$\frac{z_i}{1 - nz_i}$$

with replacement

3. If a sample with n distinct PSU's is obtained, then the sample is accepted
4. An attempt at a sample is rejected as soon as a unit appears twice

This technique is referenced in

"On Sampling Without Replacement With Unequal Probabilities of Selection", Biometrika, 1967, 54, 3 and 4, pages 499-513 by M.R. Sampford.

<b>SCHEDULE 1 - APRIL 2002 – SAMPLE MONTH</b>				
	<b>ESTIMATES</b>			
	Point Estimate	Lower 95%	Upper 95%	Sampling Precision %
<b>RA Over</b>				
Units	1,591	892	2,289	43.9
Percent	12.80%	5.72%	19.87%	7.1
Subsidy	\$193,842	\$89,755	\$297,928	53.7
<b>IC Over</b>				
Units	876	199	1,552	77.2
Percent	7.05%	0.91%	13.19%	6.1
Subsidy	\$60,023	\$21,301	\$98,746	64.5
<b>Total Over</b>				
Units	1,919	1,157	2,681	39.7
Percent	15.44%	7.70%	23.18%	7.7
Subsidy	\$253,865	\$124,791	\$382,940	50.8
<b>RA Under</b>				
Units	365	92	638	74.7
Percent	2.94%	0.68%	5.20%	2.3
Subsidy	\$17,272	\$3,572	\$30,971	79.3
<b>IC Under<sup>1</sup></b>				
<b>Total Under</b>				
Units	416	109	723	73.7
Percent	3.35%	0.83%	5.87%	2.5
Subsidy	\$20,957	\$3,994	\$37,920	80.9
<b>ABSOLUTE TOTAL</b>				
Units	2,335	1,489	3,181	36.2
Percent	18.78%	10.03%	27.44%	8.7
Subsidy	\$274,823	\$145,070	\$404,575	47.2
<sup>1</sup> We could not statistically project.				

<b>SCHEDULE 2 - 12-MONTH CERTIFICATION PERIOD ERRORS</b>				
	<b>ESTIMATES</b>			
	Point Estimate	Lower 95%	Upper 95%	Sampling Precision %
<b>RA Over</b>				
Units	1,705	962	2,448	43.6
Percent	13.71%	6.30%	21.13%	7.4
Subsidy	\$2,233,192	\$990,654	\$3,475,730	55.6
<b>IC Over</b>				
Units	940	230	1,649	75.5
Percent	7.56%	1.16%	13.96%	6.4
Subsidy	\$705,370	\$255,710	\$1,155,031	63.7
<b>Total Over</b>				
Units	2,008	1,207	2,808	39.9
Percent	16.15%	8.12%	24.18%	8.0
Subsidy	\$2,938,563	\$1,399,018	\$4,478,108	52.4
<b>RA Under</b>				
Units	384	114	654	70.3
Percent	3.09%	0.84%	5.34%	2.3
Subsidy	\$208,776	\$45,310	\$372,243	78.3
<b>IC Under<sup>1</sup></b>				
<b>Total Under</b>				
Units	434	131	738	69.8
Percent	3.50%	0.99%	6.01%	2.5
Subsidy	\$244,952	\$42,728	\$447,177	82.6
<b>ABSOLUTE TOTAL</b>				
Units	2,416	1,540	392	36.2
Percent	19.43%	10.55%	28.32%	8.9
Subsidy	\$3,183,516	\$1,633,003	\$4,734,029	48.7

<sup>1</sup> We could not statistically project.

<b>SCHEDULE 3 - ALL PERIODS REVIEWED</b>				
	<b>ESTIMATES</b>			
	Point Estimate	Lower 95%	Upper 95%	Sampling Precision %
<b>RA Over</b>				
Number	1,824	1,067	2,581	41.5
Percent	14.67%	7.02%	22.32%	7.6
Value	\$3,366,835	\$1,600,385	\$5,133,284	52.5
<b>IC Over</b>				
Number	1,066	280	1,852	73.7
Percent	8.58%	1.58%	15.58%	7.0
Value	\$1,077,557	\$319,278	\$1,835,837	70.4
<b>Total Over</b>				
Number	2,199	1,313	3,085	40.3
Percent	17.69%	8.98%	26.40%	8.7
Value	\$4,444,392	\$2,137,796	\$6,750,989	51.9
<b>RA Under</b>				
Number	384	114	654	70.3
Percent	3.09%	0.84%	5.34%	2.3
Value	\$235,129	\$70,358	\$399,899	70.1
<b>IC Under<sup>1</sup></b>				
<b>Total Under</b>				
Number	434	131	738	69.8
Percent	3.50%	0.99%	6.01%	2.5
Value	\$271,305	\$68,592	\$474,017	74.7
<b>ABSOLUTE GRAND TOTAL</b>				
Number	2,583	1,636	3,531	36.7
Percent	20.78%	11.34%	30.22%	9.4
Value	\$4,715,697	\$2,402,295	\$7,029,100	49.1

<sup>1</sup> We could not statistically project.

<b>Schedule 4 - APRIL 2002- TENANT REPORTING ERRORS</b>				
	<b>ESTIMATES</b>			
	Point Estimate	Lower 95%	Upper 95%	Sampling Precision %
<b>RA Over</b>				
Number	1,079	625	1,534	42.1
Percent	8.68%	4.02%	13.35%	4.7
Value	\$160,978	\$65,969	\$256,260	59.2
<b>IC Over</b>				
Number	692	250	1,133	68.6
Percent	5.57%	1.53%	9.6%	4.0
Value	\$53,627	\$16,829	\$90,425	63.8
<b>RA/IC Under<sup>1</sup></b>				
<b>Total April</b>				
Number	1,520	916	2,124	39.7
Percent	12.23%	6.27%	18.18%	6.0
Value	\$224,240	\$105,314	\$343,165	53.0
<b>ALL OTHER PERIODS</b>				
<b>Overpay RA</b>				
Number	1,220	686	1,754	43.8
Percent	9.82%	4.56%	15.08%	5.3
Value	\$2,623,724	\$1,028,624	\$4,218,824	60.8
<b>Overpay IC</b>				
Number	819	229	1,408	71.9
Percent	6.59%	1.48%	11.70%	5.1
Value	\$874,941	\$162,536	\$1,587,346	81.4
<b>RA/IC Under<sup>1</sup></b>				
<b>Total Review</b>				
Number	1,716	966	2,467	43.7
Percent	13.81%	6.81%	20.81%	7.0
Value	\$3,633,826	\$1,494,699	\$5,772,953	58.9

<sup>1</sup> We could not statistically project.

<b>Schedule 5 - APRIL 2002 – PROJECT MANAGER ERRORS</b>				
	<b>ESTIMATES</b>			
	Point Estimate	Lower 95%	Upper 95%	Sampling Precision %
RA Over				
Number	511	133	888	73.9
Percent	3.35%	0.76%	7.46%	3.3
Value	\$32,863	\$1,439	\$64,288	95.6
IC Over <sup>1</sup>				
RA/IC Under <sup>1</sup>				
Total April				
Number	815	396	1,234	51.4
Percent	6.56%	2.69%	10.43%	3.9
Value	\$50,582	\$15,993	\$85,172	68.4
<b>ALL OTHER PERIODS</b>				
Overpay RA				
Number	603	205	1,001	65.9
Percent	4.86%	1.28%	8.43%	3.6
Value	\$743,110	\$1,406	\$1,484,814	99.8
IC Over <sup>1</sup>				
RA/IC Under <sup>1</sup>				
<b>Total Review</b>				
Number	866	434	1,298	49.8
Percent	6.97%	2.96%	10.99%	4.0
Value	\$1,081,871	\$256,912	\$1,906,830	76.3
<sup>1</sup> We could not statistically project.				

<b>Schedule 6 - RENTAL ASSISTANCE PAYMENT ERRORS BY PROJECT TYPE</b>				
	<b>ESTIMATES</b>			
Type of Project	Point Estimate	Lower 95%	Upper 95%	Sampling Precision %
Labor				
Subsidy	1,395,869	536,490	2,225,248	61.6
Percent	38.7%	15.27%	62.23%	60.6%
Family				
Subsidy	1,742,800	436,883	3,048,717	74.9%
Percent	48.4	22.24	74.53	54.0
Elderly				
Subsidy	1	--	--	--
Percent	1	--	--	--
<sup>1</sup> We could not statistically project.				

## EXHIBIT E – COMPARISON OF RD AND OIG REVIEW FINDINGS

AO	Project Type	Supervisory Review				OIG Review		
		Units <sup>1</sup>		Not Matched	Errors <sup>2</sup>	Units		Subsidy Errors
		Sampled	%			Sampled	Errors	
1	Family	6	24%	6	0	10	0	\$0
1	Family	5 <sup>1</sup>	16%		0	10	4	\$18,522
2	Family	6	25%		0	10	3	\$7,104
2	Family	5 <sup>1</sup>	14%	5	0	10	5	\$8,485
2	Elderly	6	16%	6	0	10	0	\$0
2	Family	7	19%	7	0	10	3	\$2,593
2	Labor	8	10%	8	0	10	7	\$20,646
3	Family	6	11%		0	10	1	\$336
3	Elderly	6	11%		0	10	0	\$0
3	Congr.	7	10%		0	10	0	\$0
3	Family	6	21%		2	10	0	\$0
4	Elderly	7	21%	7	0	10	2	\$3,672
4	Family	7	19%	7	0	10	2	\$7,272
4	Family	15	20%	15	0	10	5	\$1,589
4	Family	9	18%	9	0	10	4	\$4,092
4	Family	14	20%	14	1	10	5	\$5,553
4	Labor	17	21%	17	1	10	5	\$9,647
4	Labor	10	13%	10	0	10	5	\$10,188
4	Labor	11	20%	11	0	10	5	\$2,453
5	Labor	15	2%		1	10	6	\$4,066
5	Labor	6	2%	6	0	10	4	\$3,746
5	Labor	4 <sup>1</sup>	4%		2	10	4	\$6,984
5	Family	2 <sup>1</sup>	11%	2	0	10	5	\$6,600
5	Family	6	19%	6	1	10	0	\$0
5	Family	6	7%	6	2	10	2	\$14,624
5	Labor	3 <sup>1</sup>	8%	3	0	1	0	\$0
5	Labor	6	14%	6	0	10	4	\$12,956
5	Family	6	12%	6	0	10	1	\$696
5	Labor	18	3%	18	1	10	4	\$4,080
5	Labor	15	9%	15	15	10	4	\$4,980
<b>TOTAL</b>		<b>245</b>		<b>190</b>	<b>26</b>	<b>291</b>	<b>90</b>	<b>\$160,884</b>
<sup>1</sup> Minimum sample size not reviewed.								
<sup>2</sup> Subsidy error amounts were not computed by the reviewers.								

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## EXHIBIT F - RURAL DEVELOPMENT'S RESPONSE TO DRAFT REPORT

Page 1 of 5



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Department of  
Agriculture  
Rural Development

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May 19, 2003

**TO:** Raymond G. Poland  
Regional Inspector General  
Office of Inspector General


*File*

**SUBJECT:** Audit Report No. 04004-3-AT  
Rural Rental Housing Program Tenant Income Verification

I am writing in regards to the Office of Inspector General Audit Report No. 04004-3-AT received on April 29, 2003, by our Agency.

Attached is our official response to the Audit Report along with our original correspondence provided to your staff on March 24, 2003, which should be incorporated as part of our Agency response to the Audit Report.

If you have any questions or concerns, please call me directly or Joseph Fritz, MFH Program Director at 352-338-3465.

*for*   
Charles W. Clemons, Sr.  
State Director

Attachments

*Rural Development is an Equal Opportunity Lender. Complaints of discrimination should be sent to:  
Secretary of Agriculture, Washington, D.C. 20250-0700*

**RURAL DEVELOPMENT'S RESPONSE TO AUDIT REPORT NO. 04004-3-AT****EXECUTIVE SUMMARY:**

**AGENCY RESPONSE:** The Audit Report states on Page i, Paragraph two, *"The primary cause for the improper subsidies was that tenants did not accurately report their incomes and household circumstances on their certifications or they did not notify the project managers of subsequent changes in household incomes or circumstances"*. The audit fails to adequately address this issue particularly since it appears to be the *"primary cause"* of the improper subsidies. The Agency does not disagree with this position or conclusion of the Audit Report. The Audit Report fails to mention that Administrative Notice AN 3647 was issued on April 17, 2001 and expired on April 30, 2002. The Administrative Notice has not been reissued nor has a new Administrative Notice been issued related to wage and benefit matching. Our original correspondence provided to your staff on March 24, 2003 should be incorporated as part of the Agency response to the Audit Report.

**FINDING No. 1**

**RECOMMENDATION NO. 1:** *"Review the certifications of the 79 tenants who received excess subsidies totaling \$153,938 and establish a claim and collect the overpayments (See Exhibit C)."*

**AGENCY RESPONSE:** At this time, The Agency cannot agree or disagree with the amount of \$153,938 as excess subsidy, therefore, the Agency partially accepts Recommendation No. 1. The Agency will review the certifications of the 79 tenants who received excess subsidies as reported by OIG. In those cases where the management agent improperly verified tenant incomes, the Agency will establish a claim and collect the payments in accordance with RD Instruction 1951.661 and 1930-C, Exhibit E. In those cases where the tenant improperly reported income, the management agent will establish a claim against the tenant and the management agent will attempt to collect the underpayments. The Agency will monitor the collection efforts, but once the tenant vacates the units, the Agency and the management agent will cease efforts to collect the overpayment unless OIG is willing to pursue the collection efforts through criminal proceedings. The management agents will notify the following credit reporting agencies (Experian, Trans Union and Equifax) for each tenant that terminated their lease and failed to make restitution. The State Office will issue a MFH Management Memorandum for guidance on notifying the credit reporting agencies and the methodology for collecting and processing tenant underpayments. The bad debt on the tenant's credit report will assist in collecting restitution should the tenant decide to apply as a tenant in another project or seek funding within our Single Family Housing program. In those cases where the tenant can make restitution, The Agency along with the management agent will provide adequate time for restitution. The Agency requests that OIG provide the State Office with a copy of all documents used to verify overpayments for each tenant and the procedures to calculate the values as listed in Schedule C.

**FINDING No. 2**

**RECOMMENDATION NO. 2:** *“Work with FDLE and FDLES to revise the wage and benefit match agreement to permit use of the information by project managers.”*

**AGENCY RESPONSE:** The Agency partially agrees to Recommendation No. 2. The Agency agrees to work with FDLE and FDLES to revise the wage benefit match agreement, however, we have no assurance that the agreement can be modified to permit use of the information by project managers. If the agreement cannot be modified to disclose the information to project managers, this recommendation cannot be implemented. The Agency requests the recommendation be modified.

**RECOMMENDATION NO. 3:** *“Develop and issue a State policy to require wage and benefit matching be conducted on all households at initial tenant certification and at each recertification and used by project managers during the certification process.”*

**AGENCY RESPONSE:** The Agency disagrees with Recommendation No. 3. Rural Development AN 3647 stated, “Wage and benefit matches are encouraged for initial tenant certifications of those moving into projects for the first time.” The Audit Report has imposed a requirement that is not supported by AN 3647 in two ways: First, making it mandatory that wage and benefit matching is conducted on all households at initial certifications; and Secondly requiring wage and benefit matching on all recertifications. Essentially, we would be performing wage and benefit matching on all households in Florida or approximately 24,935 adults within a twelve month period. We do not think that was the intent of AN 3647, and therefore, disagree with this recommendation. The Agency does support and will encourage wage and benefit matches for initial tenant certifications of those moving into projects for the first time.”

**RECOMMENDATION NO. 4:** *“Develop and issue procedures for supervisory reviews that require AO’s to wage and benefit match all household members for selected households prior to supervisory reviews and document the corrective actions taken.”*

**AGENCY RESPONSE:** The Agency disagrees with Recommendation No. 4. RD Instruction 1930-C is the procedure that outlines the requirements for conducting supervisory reviews; the State Office does not issue procedures but issues Administrative Notices and Management Memorandums. The State Office has implemented management memorandums on wage and benefit matching. The State Office will issue a new management memorandum requiring Area Offices to wage and benefit match all selected adult household members prior to supervisory reviews to meet the requirements of AN 3647 and RD Instruction 1930-C, Exhibit F-1. RD Instruction 1930-C outlines the corrective actions required for Supervisory Visits and Compliance Reviews; therefore, no other corrective actions are necessary. The State Office currently monitors Supervisory Reviews and follow-up actions required by the Area Office.

**RECOMMENDATION NO. 5:** *“Require the AO to review the tenant certification for all 80 units at project A and recover excessive RA from the borrower.”*

**AGENCY RESPONSE:** The Agency partially accepts Recommendation No. 5. The State Office request a copy of the interview transcript in which the project manager admitted to OIG that, “she counted only the primary tenant’s income and this policy had been in place since she began managing the project in 1998”. Since the Agency was not privileged to this conversation, the Agency believes the Borrower will object to this claim without a transcript of the interview. The Agency requests that OIG provide the State Office with a copy of all documents used to verify underpayments for each tenant. The Agency will review the tenant certifications for all 80 units at Project A and will attempt to recover excessive RA that can be verified based upon our review. The Agency will develop a strategy to preserve the project financially and collect unauthorized assistance payments in with RD Instruction 1951.661 and 1930-C, Exhibit E.

### **FINDING No. 3**

**RECOMMENDATION NO. 6:** *“Develop guidelines for use by project managers to estimate annual incomes used to determine tenant rents and rental subsidies.”*

**AGENCY RESPONSE:** The Agency disagrees with Recommendation No. 6. The National Office is charged with developing procedures, issuing Administrative Notices and Unnumbered Letters. RD Instruction 1930-C, Exhibit B, VII is the specific Instruction for verification of income. When tenants do not have easily verifiable income, the Borrower may “forecast” income expected to be received by the tenant during occupancy for determining eligibility and subsidy assistance. Additionally, when third party verification is not possible or available, the Borrower may “self-certify” the farm worker applicant using available documents or records the applicant may have or information the applicant can provide. The Agency agrees that guidelines should be developed; however, we believe that is the role of the National Office rather than the State Office.

**RECOMMENDATION NO. 7:** *“Establish procedures for labor-housing projects to ensure that only United States citizens and legal residents were permitted to reside in RRH projects and receive RA.”*

**AGENCY RESPONSE:** The Agency accepts Recommendation No. 7 but notes that the only guidance provided in RD Instruction 1944.153 are definitions for a “domestic farm laborer” and “migrant agricultural laborers”. No other guidance is provided in RD Instruction 1944-E or RD Instruction 1930-C nor have any Administrative Notices been issued by the National Office on tenant eligibility at farm labor housing properties. It is our opinion that the National Office should establish these procedures, since they are responsible for revising and issuing new regulations and instructions for state and field offices. The recommendation references RRH projects but the Section 515 program is for family and elderly households. The Section 514 (loan) and Section 516 (grant) programs are targeted to farm labor households. The recommendation should be revised to reference LH projects instead of RRH projects. The management agent is responsible to ensure that tenants, to be eligible for agency assistance, must be either a U.S. citizen or provide acceptable evidence of eligible immigration status. Any tenant who is neither a

U.S. citizen nor a qualified alien should be rejected. The State Office will seek approval from the National Office to use Exhibit 4-5, "Acceptable Evidence of Qualified Aliens" from the 3550 Single Family Housing Field Office Handbook as a means to establish a procedure to document evidence of a qualified alien. If approved, the State Office will notify all management agents to use Exhibit 4-5 as a method to document evidence of qualified aliens. If there is a question about the authenticity of the information provided, the management agent will contact the Immigration and Naturalization Service for verification. The State Office will require that all tenant applications contain a question about citizenship. If the question is not appropriately checked, then the tenant will be required to furnish documentation they are qualified aliens.

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## ABBREVIATIONS

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AFDC	
Aid for Dependent Children .....	33
AN	
Administrative Notice .....	4
AO	
Area Office .....	1
FDLE	
Florida Department of Law Enforcement .....	3
FDLES	
Florida Department of Employment Security .....	3
FY	
Fiscal Year .....	5
IC	
Interest Credit .....	1
<i>MFH</i>	
<i>Multi-Family Housing</i> .....	12
OGC	
Office of General Counsel .....	5
OIG	
Office of Inspector General .....	4
PPS	
Proportionally to Size .....	36
PSU	
Primary Sample Units .....	38
RA	
Rental Assistance .....	1
RD	
Rural Development .....	1
RHS	
Rural Housing Service .....	1
RRH	
Rural Rental Housing .....	1
SA	
State Agency .....	4

SO	
State Office .....	1
SP	
Sample Precision .....	38
SSA	
Social Security Administration.....	6
SSI	
Supplemental Security Income .....	4
SSN	
Social Security Number .....	4
USDA	
U.S. Department of Agriculture .....	1
VOE	
Verification of Employment .....	35